

Arundel Partners: The Sequel Project

In April 1992 Mr. David A. Davis, a movie industry analyst at Paul Kagan Associates, Inc. in Los Angeles, was asked to look at and comment on an unusual business idea. The idea was to create an investment group, Arundel Partners, which would purchase the sequel rights associated with films produced by one or more major U.S. movie studios. As owner of the rights, Arundel would wait to see if a movie was successful, and then decide whether or not to produce a second film based on the story or characters of the first.

The proposal was innovative in several respects. First, Arundel would purchase sequel rights before the first films were even made, let alone released. Second, the investor group would not make artistic judgments or attempt to select the rights for particular movies based on predictions of a possible sequel's success. Instead, Arundel would contract to purchase *all* the sequel rights for a studio's entire production during a specified period (one to two years), or alternatively, for a specified number of major films (15 to 30). Third, Arundel's advance cash payments for the rights, at an agreed-upon price per film, would help finance production of the initial films.

The idea was intended to capitalize on a few specific characteristics of the movie industry. Producing and distributing motion pictures was a risky business and predicting the success of any one film was extremely difficult, if not altogether impossible. Moreover, studios' production decisions were driven by both creative and business considerations, which often conflicted. The combination of uncertainty and conflict sometimes strained the financial resources of even the largest studios. Arundel could expect to avoid the conflict between art and commerce and, at the same time, escape (for a price) much of the risk associated with the unpredictability of moviegoers' tastes. The idea was expected to appeal to studios because Arundel would offer cash when it was needed most, during an initial film's production. Since Arundel would seek to purchase the rights to many films, the total payments by Arundel could be substantial and would help reduce the studio's borrowing.

Whether Arundel could expect to make money depended heavily on how much it had to pay to purchase a portfolio of sequel rights. In 1992 the major studios did not usually sell sequel rights, nor did they explicitly assign them a value when deciding to put a project into production. However, casual inquiries suggested that studios would find the idea tempting at a price of $2 million or more per movie. At prices below $1 million per movie they probably would not even discuss it. Paul Kagan Associates, Inc. had expertise in analyzing the film business, and it had assembled certain proprietary data on industry cash flows. Hence, Mr. Davis was asked how much the sequel rights were worth.

William A. Teichner, Charles M. Williams Fellow, prepared this case under the supervision of Professor Timothy A. Luehrman as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation.

The Movie Business

To reach the public, a movie went through three stages: production, distribution, and exhibition. Production involved creating the film negative. Distribution consisted of advertising the film, making prints, shipping prints to theaters, reproducing the film onto videocassettes, and licensing it to pay and non-pay television and other outlets. Finally, exhibition traditionally consisted of projecting films in theaters, but increasingly included other viewing media, such as home video.

In 1992, the major movie companies (and ultimate parent companies, if different) involved in U.S. production and distribution were MCA Universal (Matsushita Electric Industrial Co., Ltd.); Metro-Goldwyn-Mayer Inc. (Credit Lyonnais Bank Nederland N.V.); Orion Pictures Corp.; Paramount Pictures Corp. (Paramount Communications, Inc.); Sony Pictures Entertainment, Inc. (Sony Corp.);[1] The Walt Disney Company;[2] Twentieth Century Fox Film Corp. (The News Corporation, Ltd.); and Warner Brothers, Inc. (Time Warner, Inc.).

These companies, or *studios*, were all engaged in both production and distribution, and in some cases exhibition as well. Several of the parent companies or their subsidiaries owned movie theater chains, pay TV channels, and/or TV stations.

In 1991 the major studios and smaller distributors released 150 and 274 films, respectively, in the United States. While the major studios distributed just 35% of all films released in the United States, they accounted for 93% of all revenues received from U.S. movie theaters. These revenues were known as *film rentals* because the distributor essentially rented prints of the film to theaters for a specified period of time. The top U.S. rental film of 1991, Tri-Star's *Terminator 2*, represented approximately 5% of total U.S. industry rentals. The top five films accounted for 16% of total rentals and the top ten films accounted for 26%. The industry's market share leader (in rentals) changed from year to year according to which studio's releases were most successful. **Exhibit 1** presents selected data from 1980-1991 for U.S. film distributors.

Production

Most movies were based on existing literary properties, and *producers* who planned to adapt a property into a movie normally had to acquire its film rights.[3] Sometimes literary agents introduced properties to producers. Other times, large talent agencies presented producers with *packages* consisting of a script, director, and principal actors. Sometimes producers discovered or created properties on their own. Producers frequently purchased options on the film rights to literary properties. However, most such options were never exercised—the likelihood that a movie would be made from an optioned property was very small.

Production costs were incurred in each of three primary stages: *pre-production*, *principal photography*, and *post-production*. Costs for pre-production included expenditures for script development, set design, casting of actors, film crew selection, costume design, location scouting, and budget planning. The costs associated with principal photography included fixed salaries of actors,

[1]Sony Pictures owned Columbia Pictures and Tri-Star Pictures. Both were involved in production and distribution.

[2]The Walt Disney Company owned three film studios: Walt Disney, Touchstone, and Hollywood Pictures, and distributed their films through Buena Vista Pictures Distribution, Inc., a wholly-owned subsidiary.

[3]The term *producer* was used in a variety of ways in the motion picture industry. Here, it refers to the individuals or companies that owned the rights to produce a film.

directors, writers, and other personnel.[4] They also included rent, wages, and other expenses for soundstages, set construction, lighting, transportation (for location shooting), costume making, special effects, and miscellaneous items. Finally, post-production costs consisted of expenses for film editing, the laying down of sound effects and music, and the addition of titles and credits. On average, the entire production cycle required one year from the time a project was put into production until the finished film was released to theaters.[5]

The total cost of production, including fixed expenses for story acquisition, was called the *negative cost*, i.e. the cost to create the film's completed negative, from which positive prints could be made.[6] The negative cost excluded advertising and other distribution expenses. While the negative cost included fixed salaries to actors and others, it did not include future compensation that was linked to either the film's revenues or its earnings. **Exhibit 2** presents a breakdown of items normally included in a film's negative cost.

In 1991 the average negative cost, excluding interest, for a major new movie was approximately $20 million. This cost had to be financed somehow. Some producers (e.g., wealthy individuals, producer partnerships, and movie studios) financed their own projects. Sometimes the rights to certain revenues, such as from the home video or non-U.S. theater markets, were pre-sold to raise cash for production. In other cases, independent producers obtained financing from major studios. When a studio financed an independent production, it frequently supplied personnel, facilities, supervision, and equipment.

It was very common for a project to be rejected by one or more studios before it finally received financial support. Furthermore, studios often backed out of projects after investing initial time or money, but before beginning principal photography.

Distribution

Typically, the studio that produced or financed a particular movie also distributed it. When producers financed negative costs without help from studios, they often engaged studios to simply *pick up* or distribute their films once they were completed. In their capacity as film distributors, the studios managed the circulation of movies to theaters, the licensing of films to pay and non-pay TV, and the duplication and distribution of videocassettes. They handled advertising, publicity, and promotion for the films they distributed. They also collected proceeds from theaters and ancillary revenue sources.

The traditional contract between the distributor and the producer allowed the distributor to charge *distribution expenses* and *distribution fees*, which were deducted from the revenue the distributor collected from theaters and ancillary markets. Distribution expenses included the direct costs of distributing the film, while distribution fees were charged to cover the distributor's overhead and profit.

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[4]It also included the costs of *line producers* who were hired by the financiers or producers of a movie. Line producers managed the day-to-day physical production of the movie, from pre- to post-production. They also oversaw production costs and hired and fired personnel. Their screen credits included executive producer, producer, and associate producer.

[5]While it took about a year to complete most production, a script might hibernate in pre-production development for several months or years before the beginning of principal photography if a producer could not easily arrange financing or if a studio was not very interested in the project.

[6]Sometimes interest charges on loans to finance production were included in negative costs. Here, interest charges are *excluded* from negative costs.

Distribution expenses These expenses primarily represented the costs of advertising in newspapers and on television, of making prints of the film for theaters, and of duplicating videocassettes. Advertising costs were ordinarily the largest single distribution expense by a wide margin, and occasionally exceeded a film's negative cost. They varied with the length of time a movie played in theaters. In 1991, the average U.S. advertising cost for a major film was $10 million. The cost of prints and videocassette duplication varied with the number of theaters a movie played in and the number of videocassettes sold, respectively. Other smaller distribution expenses were shipping and insurance costs and miscellaneous fees, duties, and taxes.

Distribution fees Distributors traditionally charged a fixed percentage of the proceeds they received from the various theatrical and ancillary markets to cover their overhead and profit. Because distribution fees were often calculated as a fixed percentage, they could be more or less than the overhead expenses actually incurred by the distributor.[7] The studio in its role as a distributor generally charged lower fees when an independent producer (rather than the studio) financed the negative. In addition, fees varied by ancillary market and country. For example, fees were usually higher on non-U.S. proceeds than on U.S. proceeds.

For independently-financed films distributed by a studio, a common distribution fee was 22.5% of U.S. rentals and 32.5% of most non-U.S. rentals. However, if the movie was studio-financed, the fee was generally 30% of U.S. rentals and 40% of most non-U.S. rentals.[8] Fees on home video and pay television revenues were often the same as those on theater rentals. U.S. network TV fees were sometimes several percentage points lower, while U.S. syndicated TV and non-U.S. TV fees were several percentage points greater.

Exhibition

Exhibition usually referred to projection of movies in theaters, but, defined broadly, encompassed ancillary markets as well. Films were released to the various markets in stages that spanned seven or more years from the date of initial release. U.S. films were typically released first to U.S. movie theaters, about one year after going into production. Revenues from ticket sales in movie theaters were known as *gross box office proceeds*. During 1991, for each dollar of gross box office proceeds, about 50 cents was remitted to the distributor as film rentals.[9]

About two months after their release in the United States, films were released to non-U.S. theaters. About eight months after theatrical release, videocassettes were sold in the United States and soon thereafter in non-U.S. markets. Movies normally appeared on pay TV in the beginning of the second year after release and shortly afterwards on non-U.S. pay TV. In the third year, films aired on U.S. network TV and non-U.S. TV. Finally, films might be licensed to independent television stations around the world six to eight years after their theatrical release. **Exhibit 3** illustrates the sequence of releases to various markets.

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[7]The distribution fee percentage was sometimes lowered once certain pre-determined dollar amounts were reached.

[8]Under both scenarios, fees on U.K. and Canadian rentals were typically lower than for other countries. In addition, distribution fees were generally lower when independent producers helped finance distribution expenses.

[9]A common arrangement between the distributor and the theater exhibitor provided that the distributor would receive the greater of: (a) 70% of the gross box office proceeds in the first two weeks (60% for the following two; 50% for the next two; 40% for the next two, and 35% for the remainder of the run) *or* (b) 90% of the gross box office proceeds after subtracting out a reasonable, and pre-determined, amount of cash to cover the costs of operating the theater.

Calculation of Net Profits

After distribution expenses, distribution fees, the negative cost, and any other expenses were subtracted from all revenue, what remained were *net profits.*

For an independently-financed film distributed by a studio, the studio collected proceeds from the various revenue sources, subtracted distribution expenses and fees, and remitted the balance to the producer.[10] After subtracting the cost of the film's negative, the independent producer was left with the film's net profits.[11] See **Exhibit 2** for the calculation of net profits for a typical movie.

For movies financed by a studio, the studio—rather than the producer—subtracted out the negative cost. Again, what remained was the film's net profits. For taking on the risk of financing the film, the studio often kept 50% or more of the net profits and remitted what was left to the producer. If there were zero or negative net profits, the studio remitted nothing and bore any loss itself.

Sequels and Arundel Partners

More than 60 films produced since 1970 had one or more sequels made subsequently. Not all commercially successful first films were followed by sequels, but practically all sequels followed successful films. Many of the most profitable movies of the past 20 years spawned one or more sequels. These included, for example, *Airport*, *Back to the Future*, *Beverly Hills Cop*, *Friday the 13th*, *Ghostbusters*, *The Godfather*, *Jaws*, *Police Academy*, *Raiders of the Lost Ark*, *Rocky*, *Star Trek*, *Star Wars*, *Superman*, *Teenage Mutant Ninja Turtles*, and *Terminator*. The long-running James Bond film series had begun in 1962 with *Dr. No*, which was followed by 16 sequels.

Sequels were based on characters or situations portrayed in the initial movies. Scripts for sequels were usually written after the first film's release, and in some cases were worked on by individuals other than those who had created the original. The median release date for a sequel was three years after the first film's release, and most were released within one to five years.

The average negative cost for a sequel was higher than for the first film. For sequels made after 1970, the inflation-adjusted negative cost was about 120% of the first film's negative cost, according to one estimate. This was partly because the commercial success of the first film enhanced the bargaining power of key creative talent, who demanded higher compensation for the sequel.

A similar analysis showed that the average sequel produced only 70% of the (real) rentals that the initial film had earned. **Exhibit 4** displays comparative, inflation-adjusted cost and revenue data for a sample of first films and their sequels. **Exhibit 5** shows rental data for a small number of

[10]Occasionally, a major actor's contract specified that he or she would receive a percentage of the film's revenues. In that case, these *gross participations* were often paid out of the distributor's proceeds before fees and expenses.

[11]Sometimes creative talent received net profit participations, or percentages or any positive net profits the film made. The arrangement described in the text, wherein fees were deducted by the distributor, was fairly standard in the industry and was called a *distribution fee deal* or *net deal*. In the 1980s, two other kinds of deals became common. These were the *gross percentage deal* and *adjusted gross percentage deal*. In the gross percentage deal, the producer received a fixed percentage of the film's proceeds received by the distributor. In the adjusted gross percentage deal, the producer received a fixed percentage of the distributor's proceeds after certain items were first subtracted.

films that spawned more than one sequel. For most such film series, rentals declined with each additional installment in the series.

The Sequel Project

Arundel Partners would be interested in purchasing the sequel rights for one or more studios' entire production over an extended period of not less than a year. If a particular film was a hit, and Arundel thought a sequel would be profitable, it would exercise its rights by producing the sequel itself or hiring professionals to do so. Alternatively, it could sell the rights to the highest bidder. Inevitably, most first films would not justify sequels, and for them the sequel rights would simply not be exercised. As a practical matter, for most movies it would be very clear after their first few weeks in U.S. theaters whether a sequel would be economical or not.

It would be critically important to Arundel that a number of films and a price per film be agreed upon *before* either Arundel or the studio knew which films would be produced. Once production started, the studio would gradually but inevitably form an opinion about the movie, and Arundel would not want to have to bargain over individual projects about which it knew less than the studio.

Otherwise, many details of a potential contract between Arundel and the prospective studio still needed to be worked out. For example, in addition to the price of the rights, a satisfactory method of payment had to be agreed upon. The simplest approach would be for Arundel to make payments to an escrow account when a first film went into production. These payments could then be disbursed to the studio as the movie progressed through production. Certain films might have to be excluded from the arrangement if the studio itself did not already own their sequel rights. To keep the studio committed to the success of possible sequels, it probably would be desirable to have the studio retain an interest in the revenues or the net profits of the sequel, or to have rights for *subsequent* sequels, i.e., third, fourth, and other future films, revert to the studio.

For tax purposes, it might be desirable to fix an expiration date for the sequel rights, perhaps three years from the first film's release, by which time Arundel would have to declare its intentions or forfeit the rights. This would allow Arundel enough time to make a decision about making a sequel, and enable it to more quickly write off its investment in rights it chose not to exercise. If the studio were interested, Arundel could grant it a right of first refusal on any rights it planned to sell. The contract also could provide that Arundel would use the original studio for distribution, assuming its distribution fees and expenses were competitive.

Available Movie Data

The value of the sequel rights depended heavily on the statistical distribution that characterized the returns earned by first films. Actual data on realized returns for a large sample of first films were not publicly available, although rough estimates could be made for hundreds of films based on public information. Further, Paul Kagan Associates, Inc. had assembled a proprietary database on which even more reliable estimates could be based for an even larger sample of recent movies.

Estimates of the financial performance of all first films released by six major studios during 1989 are presented in **Exhibit 6**.[12] These estimates were used to compute the discounted cash flows presented in **Exhibit 7**, under the assumptions described in the **Appendix**. The discounted costs and

[12]**Exhibits 6-9** exclude releases from Orion and Metro-Goldwyn-Mayer, both of which were experiencing severe financial problems in 1992. Orion was in Chapter 11 bankruptcy proceedings in April 1992.

revenues were used to compute simple one-year returns for each film. As **Exhibit 7** shows, returns were highly variable, ranging from 1,224% for Tri-Star's *Look Who's Talking* to -91% for Paramount's *We're No Angels.*

Exhibits 6 and **7** also estimate costs, revenues and one-year returns for *hypothetical* sequels for each first film, according to the assumptions outlined in the **Appendix**. Essentially, these figures are projections of how a sequel would perform, assuming it was made, and assuming it was "typical". For example, Warner Brothers' *Batman* was expected to result in a successful sequel, with a projected return of 225%. Not surprisingly, however, most movies' hypothetical sequels performed poorly and undoubtedly would not be produced. **Exhibit 8** presents histograms of the one-year returns tabulated in **Exhibit 7** for first films and sequels. **Exhibit 9** summarizes some characteristics of the distribution of hypothetical sequel returns for a sample of first films released in 1987 and 1988 that had negative costs of at least $14 million.

Because Arundel's tax situation might be exceedingly complex, David Davis was asked to estimate the value of the sequel rights on a *pre-tax* basis. He had access to data such as that in **Exhibits 6-9** as well as the larger, more detailed dataset at Paul Kagan Associates. There were two obvious ways to begin analyzing the data. One was to use the projected financial performances of all the 1989 hypothetical sequels to decide which ones should be produced. Then it would be possible to estimate how much money they would make in total, and hence, how much per 1989 first film. The other approach would be to apply a simple option pricing model to the parameters of the distribution of sequel returns or sequel NPVs and so estimate directly the value of sequel rights for a random film in the available sample. Each approach would require some simplifying assumptions. Davis wondered what biases might be generated by the various assumptions, which methodology would give the more useful result, and whether either result was reliable enough to justify an investment of millions of dollars.

Exhibit 1 Selected Motion Picture Industry Data, 1980-1991

North American Theatrical Film Rental Shares of Major Film Distributors [a,b]

	Sony[c]	20th Century Fox	Metro-Goldwyn Mayer	Paramount	MCA Universal	Warner Brothers	Buena Vista[d]	Orion	Total Majors
1991	20%	12%	2%	12%	11%	14%	14%	9%	93%
1990	14	13	3	15	13	13	16	6	93
1989	16	7	6	14	17	17	14	4	95
1988	10	12	10	15	10	11	19	7	94
1987	9	9	4	20	8	13	14	10	87
1986	16	8	4	22	9	12	10	7	88
1985	20	11	9	10	16	18	3	5	92
1984	21	10	7	21	8	19	4	5	95
1983	14	21	10	14	13	17	3	4	96
1982	10	14	11	14	30	10	4	3	96
1981	13	13	9	15	14	18	3	1	86
1980	14	16	7	16	20	14	4	2	93

	Number of Films Released in the U.S. by Major and Independent Distributors[e]		Aggregate Box Office Data		
	Major Releases	Independent Releases	U.S. and Canada Gross Box Office (millions)	U.S. Rentals[f] (millions)	U.S. Average Theater Ticket Price
1991	150	274	$4,803	$2,160	$4.89
1990	158	221	5,022	2,260	4.75
1989	157	292	5,033	2,165	4.45
1988	153	319	4,458	1,920	4.11
1987	122	365	4,253	1,830	3.91
1986	133	286	3,778	1,650	3.71
1985	138	251	3,749	1,635	3.55
1984	152	256	4,031	1,800	3.36
1983	166	230	3,766	1,700	3.15
1982	150	211	3,453	1,555	2.94
1981	145	NA	2,967	1,335	2.78
1980	134	NA	2,749	1,235	2.69

Sources: Goldman Sachs Investment Research, *Movie Industry Update 1992*; MPAA, *1991 U.S. Economic Review*; and industry sources.

[a]Several companies have undergone various transformations since 1980. The chart shows the company's current name.
[b]Includes re-releases of films that were first released in earlier years.
[c]Includes films distributed by Columbia and Tri-Star. Tri-Star began operations in 1984.
[d]Buena Vista distributes films by The Walt Disney Company, and includes films produced by the Disney, Touchstone, and Hollywood Pictures studios.
[e]Excludes re-releases of films first issued in prior years.
[f]Excludes independent films.

Exhibit 2 Revenue and Cost Estimates for "Typical" Film Distributed by a Major Studio[a,b]
(in millions of 1991 $)

			Percent of U.S.Theatrical Rentals	Percent of Total Revenue
Revenue Collected by Distributor				
U.S. theater rentals	$10.0		100%	22%
Non-U.S. theater rentals	9.0		90	19
Worldwide home video	15.0		150	32
Worldwide pay TV	5.5		55	12
Worldwide TV[c]	7.0		70	15
Total		$ 46.5	465%	100%
Distribution Fees				
Worldwide theater	$5.0		50%	11%
Worldwide home video	4.0		40	9
Worldwide pay TV	1.5		15	3
Worldwide TV	2.0		20	4
Total		$ 12.5	125%	27%
Distribution Expenses				
Worldwide theater	$12.0		120%	26%
Worldwide home video	3.5		35	8
Worldwide pay TV	–		–	–
Worldwide TV	–		–	–
Total		$ 15.5	155%	33%
Negative Cost[d]				
Story rights/script development	$0.5			
Actors/director	6.0			
Production management	1.0			
Production crew	1.0			
Set design/construction	2.0			
Transportation/locations	1.5			
Wardrobe/makeup/hair	0.5			
Extras/props	0.5			
Lighting	0.3			
Special effects	0.3			
Other principal photography	1.0			
Film editing	0.7			
Music	0.4			
Other postproduction	0.8			
All other	1.5			
Total negative cost		$ 18.0		
Pretax net profits[e]		$ 0.5		

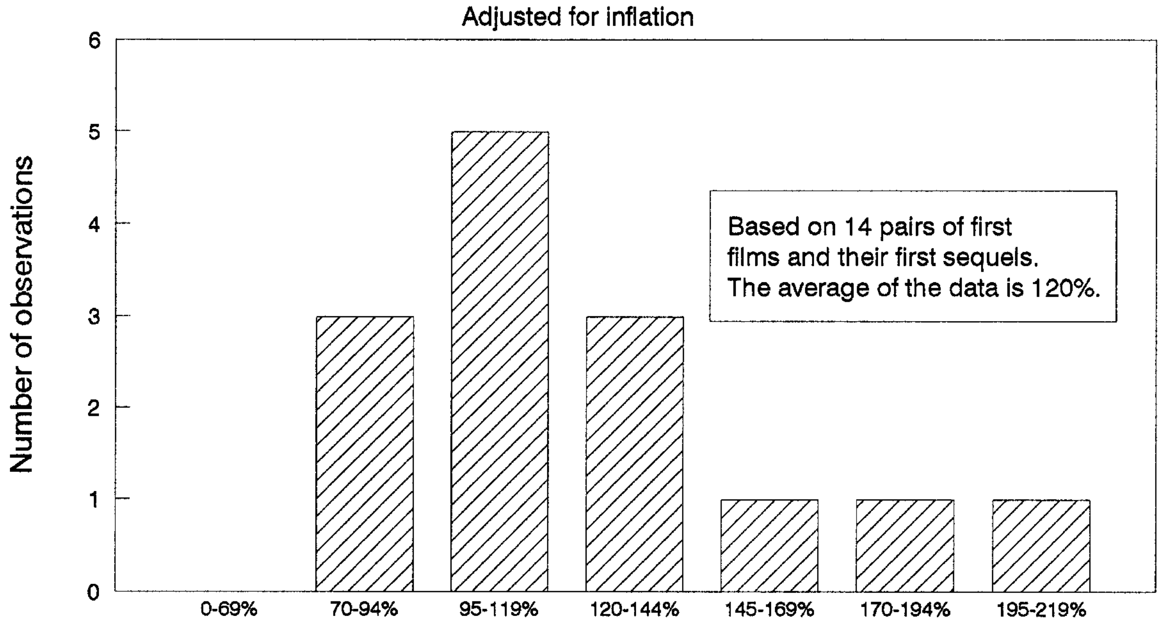
[a]The figures represent estimates of a typical film, not the average film.
[b]Fee structure assumes film is independently financed.
[c]In this chart, worldwide TV includes U.S. network, U.S. syndicated, and non-U.S. television.
[d]The negative cost breakdown is shown for illustrative purposes only, and provides one possible breakdown of a film's cost.
[e]Excludes interest charges. Assumes no gross participations.

Exhibit 3 Typical Beginning Dates for Film Production and Release

Year	0.0	0.5	1.0	1.5	2.0	2.5	3.0	3.5	4.0	4.5	5.0	5.5	6.0	6.5	7.0	7.5	8.0
Film Production	X						S[1]										
Release Schedule																	
U.S. Movie Theaters			X														
Non-U.S. Movie Theaters			X														
U.S. Home Video				X													
Non-U.S. Home Video				X													
U.S. Pay Per View					X												
U.S. Pay TV					X												
Non-U.S. Pay TV					X												
U.S. Network TV							X										
Non-U.S. TV							X										
U.S. Syndicated TV																	X
Non-U.S. TV, 2nd Run																	X

1) S= a possible sequel's most likely beginning date of production. The rest of the pattern for a sequel was expected to be similar to that of the first film.

Exhibit 4 Comparative Cost and Revenue Data of First Films and Their Sequels



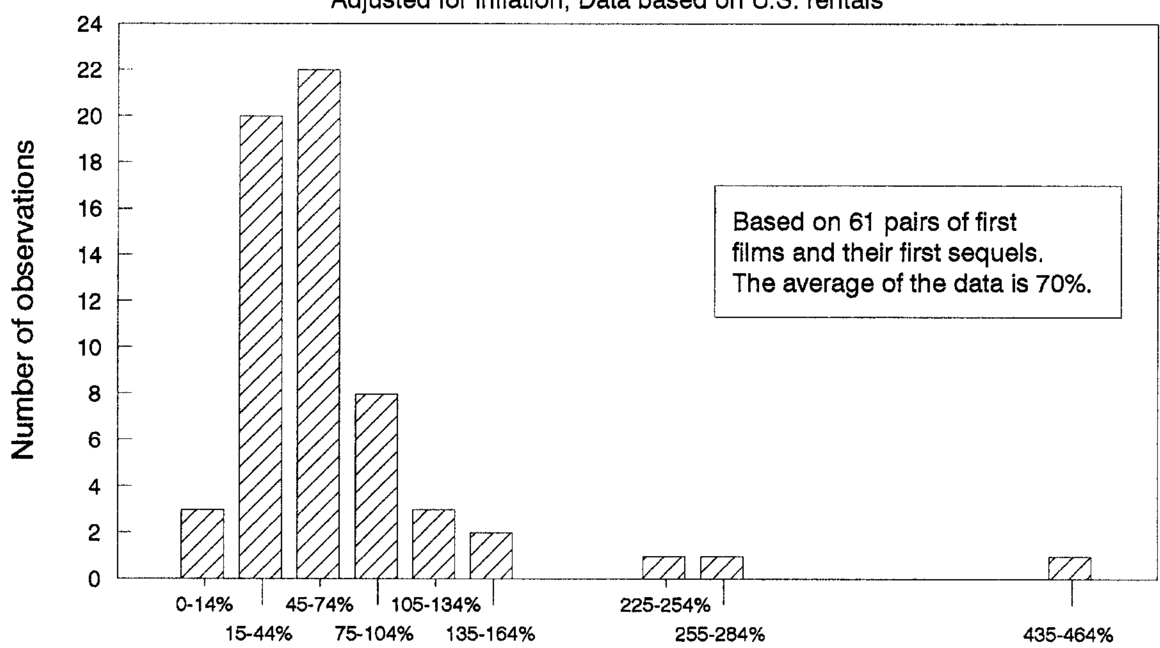


Exhibit 5 U.S. Theater Rental Data for Several Films Having More Than One Sequel

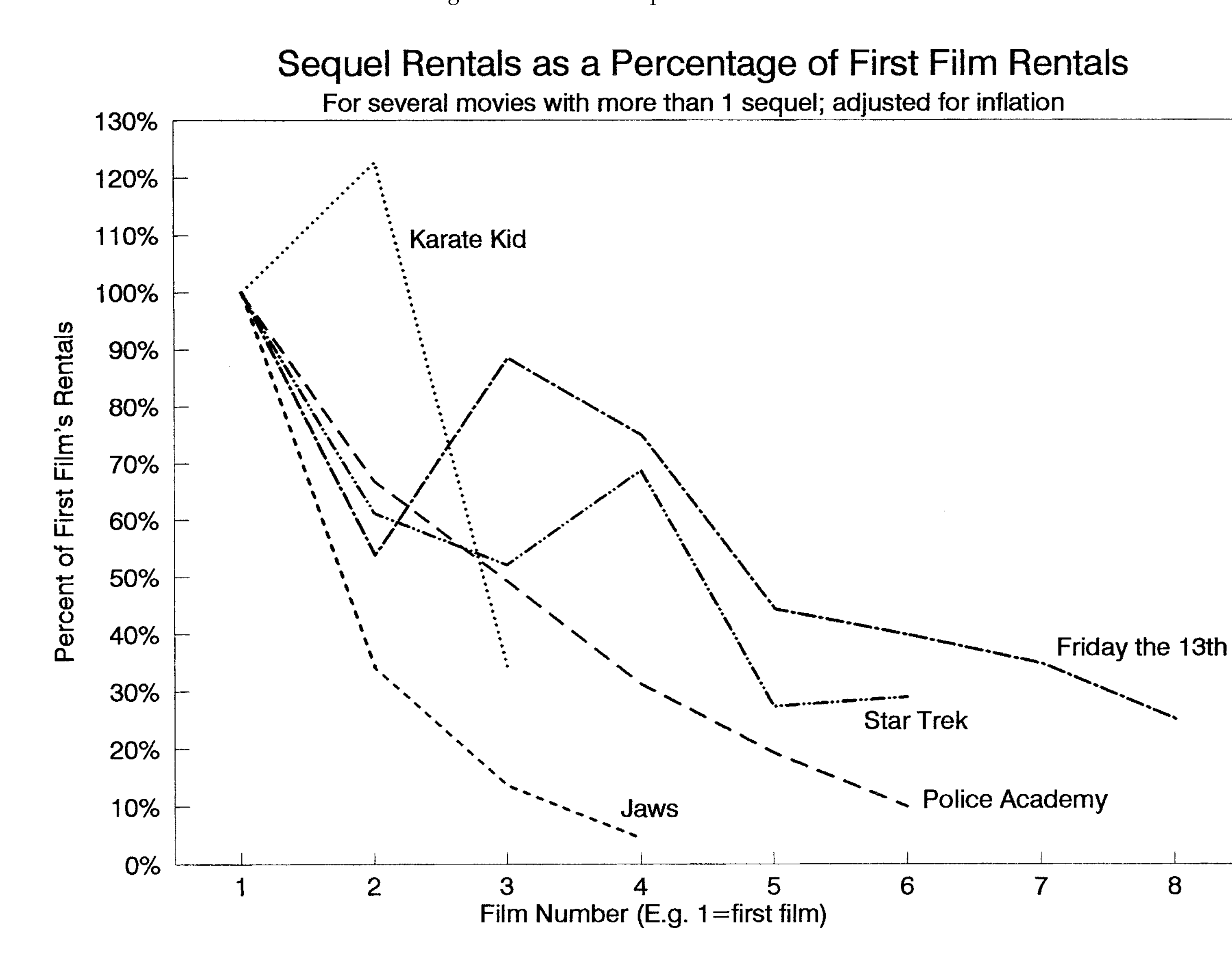


Exhibit 6 Estimated Revenues and Costs for Films Released in 1989 by Six Major Studios and Hypothetical Sequels[a] (in millions of 1991 $)

	First Film					Hypothetical Sequel				
Studio/Movie Title	U.S. Theater Rentals	Other Revenue	Distri-bution Fees	Distri-bution Expense	Negative Cost	U.S. Theater Rentals	Other Revenue	Distri-bution Fees	Distri-bution Expense	Negative Cost
MCA UNIVERSAL										
1 PARENTHOOD	$55.0	$146.1	$53.6	$43.1	$22.0	$38.5	$106.1	$38.5	$32.6	$26.4
2 BORN ON THE FOURTH OF JULY	40.5	110.9	40.3	33.1	19.8	28.4	81.4	29.2	26.0	23.7
3 FIELD OF DREAMS	33.6	94.1	34.0	31.6	17.6	23.5	69.7	24.8	22.9	21.1
4 UNCLE BUCK	33.3	93.6	33.8	30.2	16.5	23.3	69.3	24.7	22.8	19.8
5 SEA OF LOVE	31.5	89.0	32.1	32.0	27.5	22.0	66.1	23.5	22.0	33.0
6 ALWAYS	22.0	66.1	23.4	28.0	34.1	15.4	50.1	17.4	17.7	40.9
7 K-9	20.5	62.3	22.0	20.9	13.2	14.3	47.5	16.4	17.0	15.8
8 THE ‘BURBS	19.0	58.9	20.7	22.9	18.7	13.3	45.0	15.5	16.4	22.4
9 THE DREAM TEAM	15.8	51.1	17.8	19.0	16.5	11.1	39.6	13.5	14.9	19.8
10 DO THE RIGHT THING	14.6	48.2	16.7	14.6	7.7	10.2	37.6	12.7	14.4	9.2
11 DAD	11.9	41.5	14.2	20.0	20.9	8.3	32.9	11.0	13.1	25.0
12 SHOCKER	8.3	32.7	10.9	14.6	6.6	5.8	26.7	8.6	11.5	7.9
13 THE WIZARD	5.5	26.1	8.4	9.5	8.8	3.9	22.1	6.9	10.3	10.5
14 RENEGADES	4.6	23.9	7.6	13.1	13.2	3.2	20.6	6.3	9.9	15.8
PARAMOUNT PICTURES										
15 HARLEM NIGHTS	$36.3	$100.8	$36.5	$41.7	$33.0	$25.4	$74.4	$26.6	$24.1	$39.5
16 PET SEMATARY	29.1	83.2	29.9	27.1	12.1	20.3	62.0	21.9	20.9	14.5
17 BLACK RAIN	27.5	79.4	28.5	31.6	33.0	19.3	59.4	20.9	20.2	39.5
18 MAJOR LEAGUE	23.7	70.1	25.0	26.1	13.2	16.6	52.9	18.5	18.4	15.8
19 COUSINS	11.0	39.4	13.4	14.4	14.3	7.7	31.4	10.4	12.8	17.1
20 WE’RE NO ANGELS	5.5	26.1	8.4	19.9	24.2	3.9	22.1	6.9	10.3	29.0
21 LET IT RIDE	2.3	18.3	5.5	10.8	19.8	1.6	16.7	4.8	8.8	23.7
22 SHIRLEY VALENTINE	2.3	18.3	5.5	5.6	8.8	1.6	16.7	4.8	8.8	10.5
23 FAT MAN AND LITTLE BOY	1.5	16.5	4.8	9.2	20.9	1.1	15.3	4.3	8.5	25.0
24 THE EXPERTS	0.0	12.7	3.4	0.8	13.2	0.0	12.7	3.4	7.8	15.8
SONY PICTURES ENTERTAINMENT[b]										
25 LOOK WHO’S TALKING (TS)	$75.8	$196.5	$72.6	$51.7	$11.0	$53.1	$141.4	$51.8	$41.9	$13.2
26 WHEN HARRY MET SALLY (C)	46.1	124.5	45.4	38.1	20.9	32.3	91.0	32.8	28.5	25.0
27 STEEL MAGNOLIAS (TS)	44.0	119.4	43.5	35.9	24.2	30.8	87.4	31.5	27.6	29.0
28 SEE NO EVIL; HEAR NO EVIL (TS)	22.5	67.1	23.8	23.1	19.8	15.7	50.8	17.7	17.9	23.7
29 THE BEAR (TS)	14.9	48.7	16.9	22.5	23.1	10.4	37.9	12.8	14.5	27.7
30 GLORY (TS)	14.3	47.4	16.4	14.5	23.1	10.0	37.0	12.5	14.2	27.7
31 LOOK UP (TS)	8.8	34.1	11.4	16.1	18.7	6.2	27.7	9.0	11.8	22.4
32 CASUALTIES OF WAR (C)	8.1	32.5	10.8	17.1	27.5	5.7	26.6	8.6	11.5	33.0
33 CHANCES ARE (TS)	7.2	30.1	9.9	15.4	19.8	5.0	24.9	7.9	11.0	23.7
34 FAMILY BUSINESS (TS)	6.6	28.7	9.4	16.5	19.8	4.6	23.9	7.6	10.8	23.7
35 SHE’S OUT OF CONTROL (C)	5.7	26.6	8.6	12.2	16.5	4.0	22.4	7.0	10.4	19.8
36 WHO’S HARRY CRUMB? (TS)	5.0	24.7	7.9	13.2	15.4	3.5	21.1	6.5	10.0	18.5
37 ADVENTURES OF BARON MUNCHAUSEN (C)	4.3	23.1	7.3	7.8	57.1	3.0	20.0	6.1	9.7	68.5
38 TRUE BELIEVER (C)	4.1	22.6	7.1	12.8	15.4	2.9	19.6	6.0	9.6	18.5
39 TROOP BEVERLY HILLS (C)	4.0	22.3	7.0	11.5	19.8	2.8	19.5	5.9	9.6	23.7
40 TAP (TS)	3.9	22.1	6.9	11.4	16.5	2.7	19.3	5.8	9.5	19.8
41 DEEPSTAR SIX (TS)	3.4	21.0	6.5	10.0	8.8	2.4	18.5	5.5	9.3	10.5
42 JOHNNY HANDSOME (TS)	2.9	19.7	6.0	9.7	22.0	2.0	17.6	5.2	9.1	26.4
43 MUSIC BOX (TS)	2.8	19.4	5.9	8.4	19.8	1.9	17.4	5.1	9.0	23.7
44 IMMEDIATE FAMILY (C)	2.3	18.3	5.5	12.1	15.4	1.6	16.7	4.8	8.8	18.5
45 LISTEN TO ME (C)	2.0	17.5	5.2	12.0	16.5	1.4	16.1	4.6	8.7	19.8
46 PHYSICAL EVIDENCE (C)	1.7	16.7	4.9	9.2	18.7	1.2	15.5	4.4	8.5	22.4
47 OLD GRINGO (C)	1.5	16.5	4.8	6.6	37.3	1.1	15.3	4.3	8.5	44.8
48 LOVERBOY (TS)	1.5	16.5	4.8	10.5	11.0	1.1	15.3	4.3	8.5	13.2
49 SING (TS)	1.0	15.1	4.3	9.0	15.4	0.7	14.4	4.0	8.2	18.5
50 WINTER PEOPLE (C)	0.8	14.6	4.1	6.3	17.6	0.5	14.0	3.8	8.1	21.1
51 WELCOME HOME (C)	0.4	13.8	3.8	4.9	15.4	0.3	13.5	3.6	8.0	18.5
52 ADVENTURES OF MILO AND OTIS (C)	0.1	13.0	3.5	6.0	8.8	0.1	12.9	3.4	7.8	10.5
53 THE BIG PICTURE (C)	0.1	13.0	3.5	0.8	8.8	0.1	12.9	3.4	7.8	10.5
54 SLAVES OF NEW YORK (TS)	0.1	13.0	3.5	1.5	6.6	0.1	12.9	3.4	7.8	7.9

Exhibit 6 (continued)

Studio/Movie Title	First Film: U.S. Theater Rentals	First Film: Other Revenue	First Film: Distri-bution Fees	First Film: Distri-bution Expense	First Film: Negative Cost	Hypothetical Sequel: U.S. Theater Rentals	Hypothetical Sequel: Other Revenue	Hypothetical Sequel: Distri-bution Fees	Hypothetical Sequel: Distri-bution Expense	Hypothetical Sequel: Negative Cost
55 EAT A BOWL OF TEA (C)	$ 0.1	$ 13.0	$ 3.5	$ 0.8	$ 2.2	$ 0.1	$ 12.9	$ 3.4	$ 7.8	$ 2.6
56 TO KILL A PRIEST (C)	0.0	12.7	3.4	0.8	11.0	0.0	12.7	3.4	7.8	13.2
57 ME AND HIM (C)	0.0	12.7	3.4	0.8	8.8	0.0	12.7	3.4	7.8	10.5
58 BLOODHOUNDS OF BROADWAY (C)	0.0	12.7	3.4	0.8	3.3	0.0	12.7	3.4	7.8	4.0
TWENTIETH CENTURY FOX										
59 THE WAR OF THE ROSES	$45.6	$123.2	$44.9	$39.1	$27.5	$31.9	$90.0	$32.5	$28.3	$33.0
60 THE ABYSS	31.6	89.3	32.2	37.2	49.4	22.1	66.3	23.5	22.0	59.3
61 WEEKEND AT BERNIE'S	15.4	50.1	17.4	16.3	11.0	10.8	38.9	13.2	14.7	13.2
62 SAY ANYTHING	9.8	36.5	12.3	15.2	14.3	6.9	29.4	9.6	12.2	17.1
63 SKIN DEEP	9.4	35.4	11.9	15.0	11.0	6.5	28.6	9.3	12.0	13.2
64 THE FABULOUS BAKER BOYS	8.8	34.1	11.4	16.1	14.3	6.2	27.7	9.0	11.8	17.1
65 MILLENNIUM	2.6	19.1	5.8	7.1	16.5	1.8	17.2	5.0	9.0	19.8
66 WORTH WINNING	1.7	16.7	4.9	10.5	14.3	1.2	15.5	4.4	8.5	17.1
67 GLEAMING THE CUBE	1.2	15.7	4.5	6.5	12.1	0.8	14.8	4.1	8.3	14.5
68 HOW I GOT INTO COLLEGE	0.6	14.1	3.9	8.8	13.2	0.4	13.7	3.7	8.0	15.8
69 WHEN THE WHALES CAME	0.0	12.7	3.4	1.4	4.4	0.0	12.7	3.4	7.8	5.3
WARNER BROTHERS										
70 BATMAN	$165.6	$414.2	$154.5	$102.0	$54.9	$115.9	$293.7	$109.2	$82.3	$65.9
71 DRIVING MISS DAISY	55.6	147.4	54.1	43.3	8.8	38.9	107.0	38.9	32.8	10.5
72 TANGO & CASH	33.1	93.0	33.6	40.4	60.4	23.2	68.9	24.5	22.7	72.5
73 LEAN ON ME	15.8	51.1	17.8	17.7	16.5	11.1	39.6	13.5	14.9	19.8
74 HER ALIBI	10.1	37.3	12.6	16.6	22.0	7.1	29.9	9.8	12.4	26.4
75 NEXT OF KIN	7.7	31.4	10.4	14.3	13.2	5.4	25.8	8.3	11.3	15.8
76 PINK CADILLAC	7.5	30.9	10.2	16.8	20.9	5.2	25.4	8.1	11.2	25.0
77 YOUNG EINSTEIN	6.6	28.7	9.4	11.3	4.4	4.6	23.9	7.6	10.8	5.3
78 DEAD-BANG	3.9	22.1	6.9	11.4	15.4	2.7	19.3	5.8	9.5	18.5
79 DEAD CALM	3.6	21.5	6.7	10.1	9.9	2.5	18.9	5.7	9.4	11.9
80 SECOND SIGHT	2.8	19.4	5.9	9.7	11.0	1.9	17.4	5.1	9.0	13.2
81 SEE YOU IN THE MORNING	2.4	18.6	5.6	9.6	18.7	1.7	16.8	4.9	8.9	22.4
82 IN COUNTRY	1.8	17.0	5.0	9.3	19.8	1.2	15.7	4.5	8.6	23.7
83 COOKIE	1.1	15.4	4.4	5.1	14.3	0.8	14.6	4.1	8.3	17.1
84 HOW TO GET AHEAD IN ADVERTISING	0.2	13.3	3.6	0.9	5.5	0.2	13.1	3.5	7.9	6.6
85 POWWOW HIGHWAY	0.1	13.0	3.5	0.8	4.4	0.1	12.9	3.4	7.8	5.3
86 BERT RIGBY, YOU'RE A FOOL	0.0	12.7	3.4	1.4	14.3	0.0	12.7	3.4	7.8	17.1
87 PENN & TELLER GET KILLED	0.0	12.7	3.4	0.8	8.8	0.0	12.7	3.4	7.8	10.5
88 CHECKING OUT	0.0	12.7	3.4	0.8	5.5	0.0	12.7	3.4	7.8	6.6
THE WALT DISNEY COMPANY[b]										
89 HONEY, I SHRUNK THE KIDS (W)	$80.0	$206.7	$76.4	$58.6	$24.2	$56.0	$148.5	$54.5	$43.8	$29.0
90 DEAD POETS SOCIETY (T)	53.3	141.8	52.0	46.2	22.0	37.3	103.1	37.4	31.8	26.4
91 THE LITTLE MERMAID (W)	44.2	120.0	43.7	38.6	22.0	31.0	87.8	31.6	27.7	26.4
92 TURNER & HOOTCH (T)	38.8	106.9	38.8	32.5	19.8	27.2	78.6	28.2	25.3	23.7
93 THREE FUGITIVES (T)	20.4	62.1	21.9	22.2	18.7	14.3	47.3	16.4	17.0	22.4
94 AN INNOCENT MAN (T)	11.6	40.7	13.9	17.2	18.7	8.1	32.3	10.7	13.0	22.4
95 BLAZE (T)	9.9	36.7	12.4	17.8	19.8	6.9	29.5	9.7	12.3	23.7
96 NEW YORK STORIES (T)	5.2	25.3	8.1	10.7	20.9	3.6	21.5	6.7	10.1	25.0
97 GROSS ANATOMY (T)	5.1	25.0	8.0	13.2	13.2	3.5	21.3	6.6	10.1	15.8
98 DISORGANIZED CRIME (T)	4.4	23.4	7.4	11.7	12.1	3.1	20.2	6.2	9.8	14.5
99 CHEETAH (W)	4.4	23.4	7.4	10.4	7.7	3.1	20.2	6.2	9.8	9.2
AVERAGES	$14.9	$48.8	$16.9	$17.4	$17.6	$10.4	$38.0	$12.9	$14.5	$21.2

[a]Metro-Goldwyn-Mayer and Orion are excluded. Fees assume films were financed by an independent producer. Costs exclude gross participations and interest charges.

[b]C=Columbia Pictures; TS=Tri-Star. W=Walt Disney; T=Touchstone.

Exhibit 7 Estimated Expected Present Values and One-Year Holding Period Returns Based on Data in Exhibit 6 (in millions of dollars)

	First Film			Hypothetical Sequel		
Studio/Movie Title	PV of Net Inflows at Year 1[a]	PV of Negative Cost at Year 0	One-Year Return[b]	PV of Net Inflows at Year 4[a]	PV of Negative Cost at Year 3	One-Year Return[b]
MCA UNIVERSAL						
1 PARENTHOOD	$100.1	$21.5	3.65	$76.8	$28.2	1.72
2 BORN ON THE FOURTH OF JULY	74.5	19.4	2.85	56.8	25.4	1.24
3 FIELD OF DREAMS	59.1	17.2	2.44	47.3	22.6	1.10
4 UNCLE BUCK	60.0	16.1	2.72	47.0	21.2	1.22
5 SEA OF LOVE	53.5	26.9	0.99	44.4	35.3	0.26
6 ALWAYS	34.3	33.3	0.03	31.4	43.7	(0.28)
7 K-9	37.8	12.9	1.93	29.3	16.9	0.73
8 THE ‘BURBS	32.2	18.3	0.76	27.3	24.0	0.14
9 THE DREAM TEAM	28.4	16.1	0.76	22.9	21.2	0.08
10 DO THE RIGHT THING	30.0	7.5	2.98	21.2	9.9	1.15
11 DAD	17.7	20.4	(0.13)	17.4	26.8	(0.35)
12 SHOCKER	14.3	6.5	1.22	12.4	8.5	0.47
13 THE WIZARD	12.7	8.6	0.48	8.7	11.3	(0.23)
14 RENEGADES	6.9	12.9	(0.46)	7.4	16.9	(0.56)
PARAMOUNT PICTURES						
15 HARLEM NIGHTS	$55.4	$32.3	0.72	$51.1	$42.3	0.21
16 PET SEMATARY	52.6	11.8	3.45	41.1	15.5	1.65
17 BLACK RAIN	44.1	32.3	0.37	39.0	42.3	(0.08)
18 MAJOR LEAGUE	40.3	12.9	2.12	33.7	16.9	0.99
19 COUSINS	21.2	14.0	0.52	16.2	18.3	(0.11)
20 WE’RE NO ANGELS	2.1	23.7	(0.91)	8.7	31.0	(0.72)
21 LET IT RIDE	3.6	19.4	(0.82)	4.3	25.4	(0.83)
22 SHIRLEY VALENTINE	8.9	8.6	0.04	4.3	11.3	(0.62)
23 FAT MAN AND LITTLE BOY	3.3	20.4	(0.84)	3.2	26.8	(0.88)
24 THE EXPERTS	8.2	12.9	(0.36)	1.1	16.9	(0.94)
SONY PICTURES ENTERTAINMENT[c]						
25 LOOK WHO’S TALKING (TS)	$142.3	$10.8	12.24	$105.5	$14.1	6.48
26 WHEN HARRY MET SALLY (C)	83.3	20.4	3.08	64.6	26.8	1.41
27 STEEL MAGNOLIAS (TS)	80.4	23.7	2.40	61.7	31.0	0.99
28 SEE NO EVIL; HEAR NO EVIL (TS)	40.5	19.4	1.09	32.0	25.4	0.26
29 THE BEAR (TS)	22.4	22.6	(0.01)	21.5	29.6	(0.27)
30 GLORY (TS)	29.3	22.6	0.30	20.8	29.6	(0.30)
31 LOOK UP (TS)	14.1	18.3	(0.23)	13.2	24.0	(0.45)
32 CASUALTIES OF WAR (C)	11.4	26.9	(0.57)	12.3	35.3	(0.65)
33 CHANCES ARE (TS)	10.8	19.4	(0.44)	10.9	25.4	(0.57)
34 FAMILY BUSINESS (TS)	8.3	19.4	(0.57)	10.2	25.4	(0.60)
35 SHE’S OUT OF CONTROL (C)	10.5	16.1	(0.35)	9.0	21.2	(0.58)
36 WHO’S HARRY CRUMB? (TS)	7.6	15.1	(0.49)	7.9	19.7	(0.60)
37 ADVENTURES OF BARON MUNCHAUSEN (C)	11.6	55.9	(0.79)	7.0	73.4	(0.90)
38 TRUE BELIEVER (C)	5.8	15.1	(0.61)	6.7	19.7	(0.66)
39 TROOP BEVERLY HILLS (C)	6.9	19.4	(0.64)	6.5	25.4	(0.74)
40 TAP (TS)	6.7	16.1	(0.58)	6.4	21.2	(0.70)
41 DEEPSTAR SIX (TS)	7.1	8.6	(0.17)	5.8	11.3	(0.49)
42 JOHNNY HANDSOME (TS)	6.0	21.5	(0.72)	5.0	28.2	(0.82)
43 MUSIC BOX (TS)	7.1	19.4	(0.63)	4.9	25.4	(0.81)
44 IMMEDIATE FAMILY (C)	2.2	15.1	(0.85)	4.3	19.7	(0.78)
45 LISTEN TO ME (C)	1.6	16.1	(0.90)	3.8	21.2	(0.82)
46 PHYSICAL EVIDENCE (C)	3.6	18.3	(0.80)	3.4	24.0	(0.86)
47 OLD GRINGO (C)	6.0	36.6	(0.84)	3.2	48.0	(0.93)
48 LOVERBOY (TS)	2.0	10.8	(0.81)	3.2	14.1	(0.77)
49 SING (TS)	2.2	15.1	(0.85)	2.4	19.7	(0.88)
50 WINTER PEOPLE (C)	4.4	17.2	(0.74)	2.1	22.6	(0.91)
51 WELCOME HOME (C)	5.1	15.1	(0.66)	1.7	19.7	(0.91)
52 ADVENTURES OF MILO AND OTIS (C)	3.1	8.6	(0.64)	1.2	11.3	(0.89)
53 THE BIG PICTURE (C)	8.4	8.6	(0.02)	1.2	11.3	(0.89)
54 SLAVES OF NEW YORK (TS)	7.8	6.5	0.20	1.2	8.5	(0.85)
55 EAT A BOWL OF TEA (C)	8.4	2.2	2.92	1.2	2.8	(0.56)
56 TO KILL A PRIEST (C)	8.2	10.8	(0.24)	1.1	14.1	(0.92)

Exhibit 7 (continued)

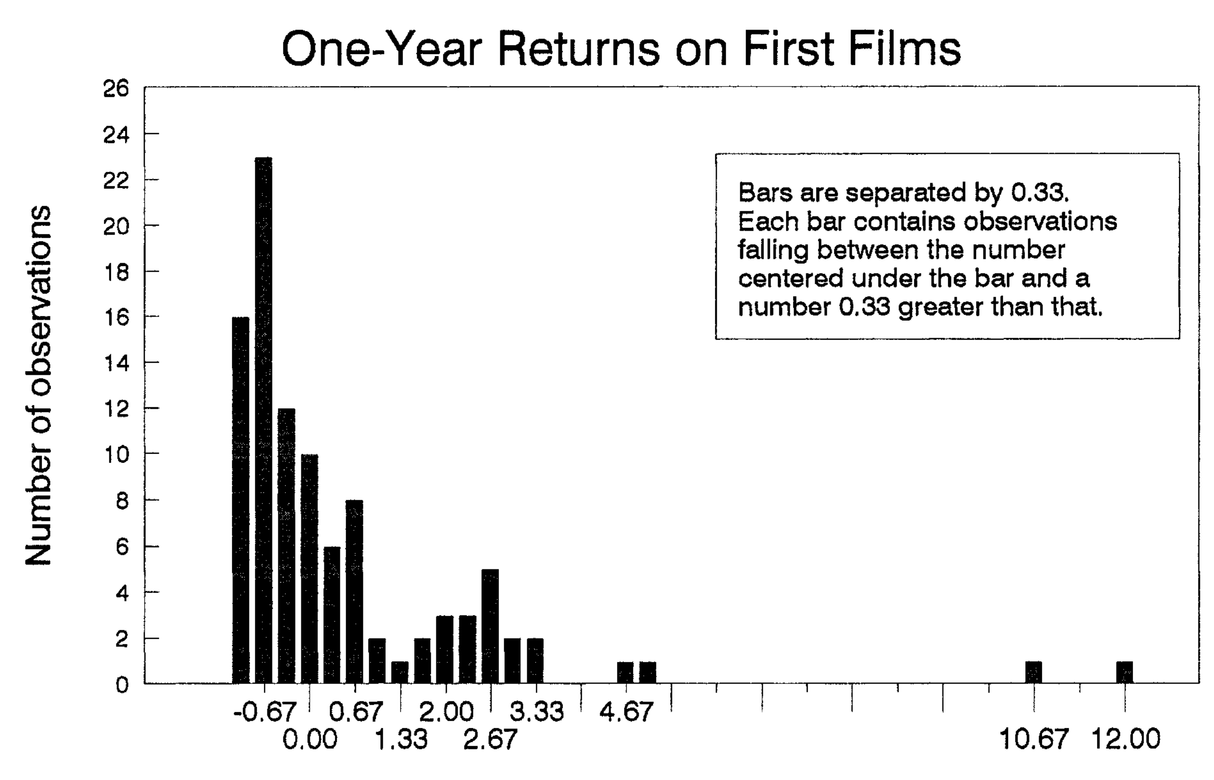
	First Film			Hypothetical Sequel		
Studio/Movie Title	PV of Net Inflows at Year 1[a]	PV of Negative Cost at Year 0	One-Year Return[b]	PV of Net Inflows at Year 4[a]	PV of Negative Cost at Year 3	One-Year Return[b]
57 ME AND HIM (C)	$8.2	$8.6	(0.05)	$1.1	$11.3	(0.90)
58 BLOODHOUNDS OF BROADWAY (C)	8.2	3.2	1.54	1.1	4.2	(0.74)
TWENTIETH CENTURY FOX						
59 THE WAR OF THE ROSES	$80.8	$26.9	2.01	$63.8	$35.3	0.81
60 THE ABYSS	48.4	48.4	0.00	44.6	63.5	(0.30)
61 WEEKEND AT BERNIE'S	30.2	10.8	1.81	22.3	14.1	0.58
62 SAY ANYTHING	17.5	14.0	0.25	14.6	18.3	(0.21)
63 SKIN DEEP	16.6	10.8	0.54	14.0	14.1	(0.01)
64 THE FABULOUS BAKER BOYS	14.1	14.0	0.01	13.2	18.3	(0.28)
65 MILLENNIUM	8.2	16.1	(0.49)	4.7	21.2	(0.78)
66 WORTH WINNING	2.2	14.0	(0.84)	3.4	18.3	(0.82)
67 GLEAMING THE CUBE	5.3	11.8	(0.55)	2.7	15.5	(0.82)
68 HOW I GOT INTO COLLEGE	1.3	12.9	(0.90)	1.8	16.9	(0.89)
69 WHEN THE WHALES CAME	7.5	4.3	0.75	1.1	5.6	(0.81)
WARNER BROTHERS						
70 BATMAN	$311.5	$53.8	4.80	$229.1	$70.5	2.25
71 DRIVING MISS DAISY	101.2	8.6	10.76	77.6	11.3	5.87
72 TANGO & CASH	48.9	59.1	(0.17)	46.7	77.6	(0.40)
73 LEAN ON ME	29.8	16.1	0.85	22.9	21.2	0.08
74 HER ALIBI	16.8	21.5	(0.22)	15.0	28.2	(0.47)
75 NEXT OF KIN	13.2	12.9	0.02	11.7	16.9	(0.31)
76 PINK CADILLAC	10.1	20.4	(0.51)	11.4	26.8	(0.58)
77 YOUNG EINSTEIN	13.6	4.3	2.17	10.2	5.6	0.80
78 DEAD-BANG	6.7	15.1	(0.55)	6.4	19.7	(0.68)
79 DEAD CALM	7.6	9.7	(0.22)	6.1	12.7	(0.52)
80 SECOND SIGHT	5.8	10.8	(0.46)	4.9	14.1	(0.65)
81 SEE YOU IN THE MORNING	5.1	18.3	(0.72)	4.4	24.0	(0.82)
82 IN COUNTRY	3.8	19.4	(0.80)	3.5	25.4	(0.86)
83 COOKIE	6.4	14.0	(0.54)	2.6	18.3	(0.86)
84 HOW TO GET AHEAD IN ADVERTISING	8.6	5.4	0.61	1.4	7.1	(0.80)
85 POWWOW HIGHWAY	8.4	4.3	0.96	1.2	5.6	(0.78)
86 BERT RIGBY, YOU'RE A FOOL	7.5	14.0	(0.46)	1.1	18.3	(0.94)
87 PENN & TELLER GET KILLED	8.2	8.6	(0.05)	1.1	11.3	(0.90)
88 CHECKING OUT	8.2	5.4	0.53	1.1	7.1	(0.85)
THE WALT DISNEY COMPANY						
89 HONEY, I SHRUNK THE KIDS (W)	$145.5	$23.7	5.15	$111.2	$31.0	2.58
90 DEAD POETS SOCIETY (T)	92.5	21.5	3.30	74.4	28.2	1.64
91 THE LITTLE MERMAID (W)	78.1	21.5	2.63	62.0	28.2	1.20
92 TURNER & HOOTCH (T)	71.2	19.4	2.68	54.6	25.4	1.15
93 THREE FUGITIVES (T)	36.3	18.3	0.98	29.1	24.0	0.21
94 AN INNOCENT MAN (T)	19.7	18.3	0.08	17.0	24.0	(0.29)
95 BLAZE (T)	15.0	19.4	(0.22)	14.7	25.4	(0.42)
96 NEW YORK STORIES (T)	10.7	20.4	(0.47)	8.2	26.8	(0.69)
97 GROSS ANATOMY (T)	7.8	12.9	(0.39)	8.1	16.9	(0.52)
98 DISORGANIZED CRIME (T)	7.8	11.8	(0.34)	7.1	15.5	(0.54)
99 CHEETAH (W)	9.2	7.5	0.22	7.1	9.9	(0.28)
Average:	$27.7	$17.3	0.67	$21.6	$22.6	(0.08)
Median:	$10.5	$16.1	(0.02)	$ 8.7	$21.2	(0.54)
Standard deviation:	$41.4	$10.1	2.07	$31.5	$13.3	1.21
Interquartile range:	$6.9 to $34.3	$10.8 to $20.4	(0.55) to 0.99	$ 3.4 to $29.1	$14.1 to $26.8	(0.82) to 0.21

[a]Net inflows consist of all revenues minus associated distribution fees and expenses.

[b]One-year return is defined as: [PV of net inflows minus PV of negative cost] divided by [PV of negative cost].

[c]C=Columbia Pictures; TS=Tri-Star. W=Walt Disney; T=Touchstone.

Exhibit 8 Histograms of One-Year Returns for First Films and Hypothetical Sequels (based on data calculated in Exhibit 7)



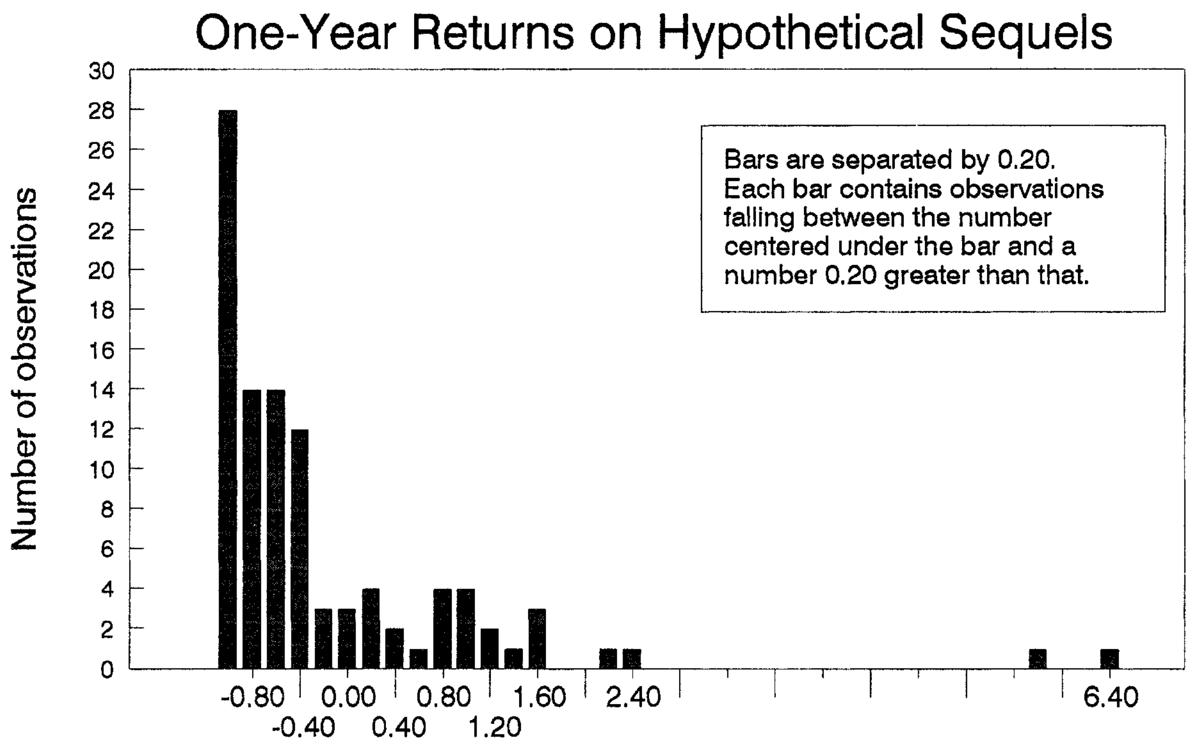


Exhibit 9 Summary Statistics for Samples of Films Released in 1987 and 1988[a] (dollar figures in millions)

Table A 1987 Data

	First Film: U.S. Theater Rentals	First Film: Other Revenue	First Film: Distribution Fees	First Film: Distribution Expense	First Film: Negative Cost	Hypothetical Sequel: U.S. Theater Rentals	Hypothetical Sequel: Other Revenue	Hypothetical Sequel: Distribution Fees	Hypothetical Sequel: Distribution Expense	Hypothetical Sequel: Negative Cost
Average (in 1991 $):	$21.3	$64.4	$22.8	$21.5	$26.3	$14.9	$48.9	$17.0	$17.4	$31.6

	First Film: PV of Net Inflows at Year 1	First Film: PV of Negative Cost at Year 0	First Film: One-Year Return[a]	Hypothetical Sequel: PV of Net Inflows at Year 4	Hypothetical Sequel: PV of Negative Cost at Year 3	Hypothetical Sequel: One-Year Return[a]
Average:	$39.4	$25.8	0.71	$30.4	$33.8	0.01
Median:	$30.9	$22.3	0.04	$24.0	$29.3	(0.39)
Standard deviation:	$38.4	$ 9.4	2.05	$29.4	$12.3	1.20
Interquartile range:	$11.1 to $52.1	$18.8 to $29.3	(0.60) to 1.22	$ 8.8 to $40.2	$24.6 to $38.5	(0.75) to 0.31

Table B 1988 Data

	First Film: U.S. Theater Rentals	First Film: Other Revenue	First Film: Distribution Fees	First Film: Distribution Expense	First Film: Negative Cost	Hypothetical Sequel: U.S. Theater Rentals	Hypothetical Sequel: Other Revenue	Hypothetical Sequel: Distribution Fees	Hypothetical Sequel: Distribution Expense	Hypothetical Sequel: Negative Cost
Average (in 1991 $):	$19.7	$60.5	$21.3	$20.5	$24.4	$13.8	$46.1	$15.9	$16.7	$29.2

	First Film: PV of Net Inflows at Year 1	First Film: PV of Negative Cost at Year 0	First Film: One-Year Return[a]	Hypothetical Sequel: PV of Net Inflows at Year 4	Hypothetical Sequel: PV of Negative Cost at Year 3	Hypothetical Sequel: One-Year Return[a]
Average:	$36.4	$23.8	0.48	$28.2	$31.3	(0.13)
Median:	$22.4	$20.3	0.01	$17.5	$26.6	(0.40)
Standard deviation:	$38.2	$11.4	1.37	$29.3	$14.9	0.80
Interquartile range:	$ 9.3 to $42.1	$16.9 to $24.8	(0.48) to 0.93	$ 7.5 to $32.5	$22.2 to $32.5	(0.69) to 0.14

[a]One-year return is defined as: [PV of net inflows minus PV of negative cost] divided by [PV of negative cost].

Appendix

This appendix describes how the estimates of first films' and hypothetical sequels' financial performance were produced for **Exhibits 6** and **7** (**Exhibit 9** is exactly analogous).

Exhibit 6: Revenues and Costs in 1991 Dollars

Exhibit 6 presents estimates for the major categories of revenues and costs for first films released by six major studios in 1989, and corresponding estimates for a hypothetical sequel based on each. These are estimates of how each film would perform if independently financed (Arundel would finance its own productions). Figures in **Exhibit 6** are based on film-by-film estimates of negative costs, U.S. rentals, and U.S. print and advertising costs published by the trade periodical *Variety* between 1990-1992. Estimates of ancillary market revenues, distribution fees, and distribution expenses are based on expected relationships between each of these variables and one or more items of the *Variety* data. All items in **Exhibit 6** are expressed in 1991 dollars to facilitate the use of expected relationships between real variables, as derived from various datasets.

Revenues for each of the ten ancillary markets listed in **Exhibit 3** are projected from estimated U.S. rentals according to relationships derived from a large sample of films. Distribution fees are computed as a fixed percentage of the revenue from each source, assuming independent financing. Distribution expenses for the U.S. theatrical run are grossed up from *Variety's* estimates of U.S. print and advertising costs; distribution expenses for other, ancillary markets are based on expected relationships between a given market and its associated expenses. Negative costs are equal to *Variety's* estimates, inflated to 1991 dollars.

Estimates of the performance of a hypothetical sequel for each first film were developed similarly. The sequel's estimated negative cost and U.S. theater rentals are 120% and 70%, respectively, of the corresponding items for the first film, per **Exhibit 4**. However, ancillary market revenues and distribution fees and expenses are not 70% of the corresponding figures for first films, but only because the underlying relationship between ancillary revenues and U.S. theater rentals is not a fixed percentage.

Exhibit 7: Discounted Values and the Distribution of Returns

Exhibit 7 uses data from **Exhibit 6** to compute nominal cash flows; distribute them over time; discount them; and estimate one-year returns. In effect, **Exhibit 7** treats film production as a one-year investment. For both first films and sequels, the producer invests the present value of the negative cost, and one year later receives the discounted value of all future net cash flows.

Films' future net cash flows consist of all ancillary revenues minus associated distribution fees and expenses, each inflated to nominal dollars (at 1.5% semiannually) and arrayed in time according to **Exhibit 3**. Negative costs are spread evenly over the year in which production occurs, and partly inflated. Nominal negative costs are discounted (at 6% semiannually) to the point at which the production decision is made. Future net cash flows are discounted to a point one year later, at the assumed U.S. theatrical release date. The return on this one-year investment is computed simply as net cash flow minus cost, divided by cost. Sample statistics in **Exhibit 7** are based on the sample of 99 films and corresponding sequels.